

EXECUTIVE SECRETARIAT

Routing Slip

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		ACTION	INFO	DATE	INITIAL
1	DCI				
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3	EXDIR				
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SUSPENSE _____
Date

Remarks:

Not referred to DOC. Waiver applies.

Executive Secretary

12/21/82
Date

Copied to:

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Not referred to DOC. Waiver applies.

THE WHITE HOUSE
WASHINGTON

Executive Registry
82-13567

CABINET AFFAIRS STAFFING MEMORANDUM

DDI- 10347/82

DATE: 12/20/82 NUMBER: 077668CA DUE BY: _____

SUBJECT: CCCT Meeting: 12/21/82 - 10:00 a.m. - Room 248 OEOB

CCEA Meeting: 12/21/82 - 3:00 p.m. - Roosevelt Room

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEO	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: Agenda items for these meetings are:

- CCCT: 1) Non-Federal Export Financing/CM#211 (paper to be Distributed)
 2) Automobile Industry Review/CM#155 (paper attached)
 3) Steel Industry Trade Issues/CM#096 (paper to be distributed)
- CCEA: 1) Capital Formation/CM#325 (no paper)

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR Cabinet Council for Commerce and Trade

SUBJECT: Briefing Papers for CCCT Consideration

Attached is the Quarterly Report to the CCCT on the Automobile Industry that will be discussed at Tuesday's meeting. In addition, I am including two papers on issues of concern to the Council that we do not have time to discuss. The first is a preview of the Industrial Outlook for 1983 that will be released later this month. The second paper explains the recent behavior of "command GNP," an alternative way of measuring GNP that is adjusted for changes in our terms of trade.


Secretary of Commerce

Attachment



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for Economic Affairs
 Washington, D.C. 20230

MEMORANDUM FOR: Cabinet Council on Commerce and Trade
FROM: Robert G. Dederick *RGD*
 Under Secretary for Economic Affairs
SUBJECT: Status Report on the U.S. Automobile Industry

OVERVIEW

The domestic auto industry continued to be weak in the third quarter as the four largest producers reported a combined loss of \$0.2 billion. Though profits traditionally are poor in the summer quarter because of the costs of introducing new models, the loss reemphasizes that cost cutting measures accomplished thus far are only part of the solution to the industry's financial problems. At current sales volumes, significant additional cost cutting would be necessary to restore the industry's financial health. There is no indication such cost cutting is likely to occur. On the contrary, incidents such as the strike by Chrysler's Canadian workers indicate increasing resistance to cost reduction programs.

Sales volumes are unlikely to increase on a sustained basis until the economy turns up. Consumers currently buying new cars have household incomes averaging 60 percent above the driving age population as a whole. While new car buyers generally have higher than average incomes, the difference normally is not this large. The economy will need to improve before other members of the driving age population begin to purchase new vehicles in greater volumes.

All of the industry's profits this year are from nonrecurring or nonconventional sources. More than the industry's entire \$0.5 billion profit for the first three quarters of 1982 came from sources such as currency translation gains, asset sales, and finance and insurance subsidiaries' income. These areas added over \$1.2 billion to pre-tax income. In contrast, we estimate that the firms lost \$0.7 billion before taxes on traditional operations.

Domestic car sales generally stayed flat in the second and third quarters, with some improvement in late October and the month of November due to manufacturers' incentive programs to reduce 1982 model inventories. As these stocks run down, manufacturers may need to consider expanding the few existing incentive programs for 1983 models. There is no evidence yet of a sustained increase in auto sales. Domestic car sales through November were 9.3 percent below sales for the first 11 months of 1981. Domestic car sales this year will be at the lowest level since 1961, although the driving age population has increased 45 percent since that year.

Import car sales are down 5.8 percent this year. But, because import sales declined less than domestic deliveries, the import share of the market through November rose 0.7 percentage points above the 27.0 percent share for the first 11 months of 1981. Japanese car sales declined only 4.3 percent through November, increasing their share of import sales to 81 percent, up from 80 percent for the same period in 1981.

Trucks have been the only bright spot in the domestic manufacturers' sales picture. Domestic truck sales were up 16.7 percent through November. With the successful introduction of domestic compact trucks, the import share of the truck market was 15.9 percent, down from 19.7 percent through November 1981. Even though their share of total sales has declined, in recent months the Japanese have recaptured some of the small truck market through aggressive pricing and marketing incentives. In May, domestic compact trucks captured 57 percent of the small pickup market; by October, their share had fallen back to 40 percent. Responding with their own incentives, the domestic share recovered to 47 percent in November.

Low production levels in the industry have precluded any increase in auto employment. The number of auto jobs in the third quarter was essentially unchanged from the second quarter level, declining from 692,000 to 691,000. In early December, over 260,000 employees were on indefinite layoff. Despite high unemployment, Chrysler's Canadian members of the UAW went on strike in early November because they were dissatisfied with the company's contract offer. U.S. workers also rejected Chrysler's offers, although they voted against striking. As a result of the Canadian strike, Chrysler laid off 4,600 U.S. workers. Though a settlement has been reached, high unemployment in the auto industry will continue to put political pressure on Congress and the Administration for action to aid the industry. Scheduled production levels for early 1983 do not indicate any significant employment increase in the near future.

Except for minor adjustments, our previous projections for industry profits and cash flow this year are unchanged. We have reduced our estimate of the cash flow deficit from \$5.1 billion to \$4.7 billion. The primary reason for this revision is a cutback in GM and Chrysler capital spending levels for 1982. The companies appear to be curtailing capital spending to minimize the cash shortfalls. Our previous two reports had indicated this was a possibility.

Since domestic manufacturers have found themselves short on capital, they are targeting their investment dollars judiciously. As a consequence, the firms are not putting capital into areas where they believe they will be unable to compete with the Japanese. This may point to an eventual abandonment of U.S. production for the small car market. GM plans to replace its Chevette line with domestic assembly of either Toyotas or Isuzus, plus additional Japanese imports marketed through GM dealers. Ford announced plans to close down a California subcompact plant next June, claiming that import competition is too strong in the state. If these trends continue, the bulk of U.S. subcompact production will, in effect, be shifted to Japan.

Industry sales and profits should improve in 1983. The present consensus of econometric forecasters and industry analysts is that car sales will be between 8.6 million and 9.5 million units, up from this year's estimated level of 7.9 million. Forecasts of 1983 truck sales are generally in the range of 2.7 to 2.9 million units, up from a projected 2.5 million this year. Our next report will examine sales and financial prospects for 1983.

SALES

Cars

Through November, total passenger car deliveries in the U.S. amounted to 7.3 million units, indicating an annual sales rate of about 7.9 million units. Sales in 1982 trail the 1981 level by 8.3 percent. Domestic car sales generally remained flat in the second and third quarters, averaging a seasonally adjusted annual rate of 5.5 million units in both periods. Late October and November sales data indicated improvement as manufacturers offered rebates, dealer incentives, and low cost financing to reduce 1982 model inventories. This is not convincing evidence, however, of the long-awaited upturn in the car market. A recovery in aggregate economic activity will be necessary before car sales increase on a sustained basis. Domestic car sales totalled 5.3 million units through November, down 9.2 percent from last year's poor showing for the same 11 month period.

Imported car sales rose in the third quarter. Volume averaged an annual rate of 2.2 million units, up from the 2.0 million unit rate of the second quarter. In October, import volume rose to an annual rate of 2.4 million units, and in November, it was up to 2.6 million units. Through November, imports achieved a 27.7 percent market share. This is 0.7 percentage points higher than the 27.0 percent share for the first 11 months of 1981. Import sales through November were 5.8 percent below last year's level.

GM's strategy for complying with fuel economy standards was dealt a serious blow this year, as diesel car sales declined dramatically. For the first 10 months of 1982, diesel engines were installed in only 4.6 percent of all new cars; this was down from 6.0 percent in 1981. There are several reasons for this decline. Consumers had commonly expected diesel fuel prices to be lower than gasoline prices. Today, the reverse situation is often true. In addition, gasoline prices are lower than last year, reducing consumer interest in fuel economy. Continuing price premiums for diesel engines also have hurt sales. Still further, GM's diesels, in particular, are developing a poor reputation for durability and reliability. While overall diesel sales declined 32 percent through October, GM's declined 34 percent; this is in spite of the fact that GM has expanded the number of car lines offering diesels.

The drop in diesel sales concerns GM because the company had planned to use diesels to avoid shifting its volume mix away from more profitable larger vehicles. The diesel engine has allowed GM to build fuel-efficient larger vehicles rather than trying to convert the company's customers to small cars. GM expected diesels to take at least 15 percent of the firm's sales by 1985. Through October, the 1982 share was 6.1 percent, down from 8.1 percent during the same period in 1981. In response, GM has cut diesel prices (for example, the diesel engine is now available at no charge on most Cadillacs, whereas it previously was offered as an extra cost option) and has extended warranties on the engine. If GM's diesel engine penetration does not improve, the corporation will have to reevaluate its fuel economy standards compliance strategy. The company already has announced it will need to use previously-earned credits to comply with the 1983 passenger car fuel economy standard.

Trucks

Through November, truck sales continued to exceed last year's levels. Truck sales through the month were up 11.5 percent over the same period in 1981. With the import share down to 15.9 percent from 19.7 percent through November 1981, the bulk of the overall gain has come from increased domestic truck sales. Benefiting from the introduction of new small models by American manufacturers, total domestic truck deliveries were up 16.7 percent through November. Domestic light truck sales increased 21.7 percent through the same period. Captive imports (imported trucks marketed by domestic manufacturers) declined 40.9 percent, and other imported truck sales went up 7.1 percent. Hindered by the 25 percent tariff on imported trucks, Toyota, Datsun, and the other independent truck importers have not kept up with the market growth. Domestic manufacturers are phasing out small import trucks and are replacing them with new domestic models; U.S. companies thus are capturing most of the truck sales increases.

These market share gains may not continue for the domestic companies. With sales of Japanese passenger cars constrained by the Voluntary Restraint Agreement, the Japanese have put new emphasis on truck sales. Aggressive pricing and marketing programs have helped them reduce the gains made by the domestic manufacturers. In May, domestic compact trucks captured 57 percent of the small pickup market; by October, their share had declined to 40 percent. After implementing their own incentive programs, the domestic share increased to 47 percent in November.

Medium and heavy truck sales continue at poor levels. In the absence of an improvement in the aggregate economy, these sales have failed to turn around. Through November, deliveries were down 19 percent from the same period last year.

1982 Forecast

Our outlook for passenger car sales this year has not changed significantly from our previous report. Total passenger car deliveries should be about 7.9 million units, an eight percent decline from 1981's level. This compares with our previous estimate of 7.8 million units. Domestic sales will be about 5.7 million units, while import sales will be about 2.2 million units.

Our truck sales outlook for 1982 is unchanged. Total sales should be 2.5 million units (2.1 million domestics and 0.4 million imports), a 10 percent increase over 1981. Car and truck sales trends are shown in Exhibits 1 and 2.

1983 Forecast

The current consensus of forecasters calls for car sales finally to improve in 1983 after declining for four consecutive years. The bulk of the projections by industry analysts and econometric forecasters range between 8.6 and 9.5 million units, with an average figure of 9.3 million. This is down slightly from earlier; a survey of industry analysts in August 1982 projected 1983 sales of 9.5 million units.

Trucks sales should continue to improve next year. Current forecasts are generally in the range of 2.7 to 2.9 million units.

PRODUCTION

Seasonally adjusted domestic automobile production rose again in the third quarter to an annual rate of 6.1 million units, up from 5.4 million* in the second quarter, and 4.2 million in the first. However, production through November still lagged 21 percent behind last year's pace. Moreover, in an effort to reduce dealer inventories, fourth quarter production has been cut to a scheduled 4.7 million unit rate. Present industry plans call for total 1982 car output of 5.1 million units, down 18 percent from last year.

Truck output remains above last year's level. Through November, domestic production ran 15 percent over the 1981 pace. Total production for 1982 is scheduled at 1.9 million units, 13 percent more than last year's total.

Early plans for first quarter 1983 passenger car production call for more than a 35 percent boost in output over the same period this year. Production is scheduled at an annual rate of 5.8 million units. With inventories expected to be in line with sales at the end of this year, this output level seems consistent with a moderate growth in sales next year. Sales probably will dip temporarily when manufacturers' incentive programs end. However, such a short-term setback should not jeopardize planned production increases.

EMPLOYMENT

Auto industry employment remained flat in the third quarter. Estimated employment by the five domestic auto manufacturers averaged 691,000 persons, down negligibly from 692,000 in the second quarter. Indefinite layoffs averaged 219,000, as compared with 240,000 in the first two quarters of 1982. The reason for the layoff decline is not clear. Some of the workers may have been dropped from the count because they were unemployed for a long period. After awhile, the auto companies no longer include all workers in the layoff estimates. Some may have found employment elsewhere. In any case, the decline was temporary; by early December, indefinite layoffs exceeded 260,000. Because of definitional problems with the layoff figures, we prefer to emphasize the employment estimates.

Despite the planned production increases in early 1983, substantial auto industry employment gains are not expected soon. A similar situation was evident in 1982. Although second quarter car and truck production was 41 percent over the first quarter levels, industry employment rose a mere four percent. Industry efforts to improve productivity mean that 1983 production increases will not lead to commensurate employment gains.

* This is a revision of our earlier estimate of 5.5 million.

CHRYSLER LABOR CONTRACTS

Chrysler's first tentative agreement with the UAW on a revised contract for U.S. workers fell apart as 70 percent of the union members rejected the pact when the vote was taken at the local level in early October. The main reason for the rejection was the contract's failure to include an immediate pay raise, even though it would have restored cost-of-living allowances. Normally such a rejection would lead to a strike shortly thereafter. However, because of Chrysler's precarious financial situation, the union leadership polled the work force on October 26 to determine whether members really wanted a strike. Given a choice of going on strike or resuming talks with Chrysler, 70 percent of the members favored staying on the job.

Chrysler also failed to reach agreement with the UAW in Canada. On November 5, the 9,600 unionized workers struck Chrysler's six Canadian plants. Chrysler immediately laid off 2,500 U.S. workers at 16 plants providing parts for Canadian vehicles. One week later, Chrysler laid off an additional 2,100 U.S. workers.

Negotiations between the company and the UAW resumed in Canada on November 20, and in the United States on November 22. On December 9, new tentative agreements were reached in both countries. Each agreement includes an immediate pay increase plus reinstatement of cost-of-living increases. The Canadian workers immediately approved the offer, and returned to work on December 13. The proposal is expected to be ratified by U.S. workers this week.

Chryslers' acceptance of union demands for pay increases does not bode well for reducing the Japanese manufacturing cost advantage. The lack of wage restraint means that productivity must be emphasized more than ever to lower manufacturing costs.

DEALER DEVELOPMENTS

Production cutbacks and increased sales resulted in an improved inventory situation for domestic car dealers. Domestic car inventories were 1.16 million units on December 1, down from 1.36 million units at the end of the second quarter. This translated into a 52 days' supply of inventory on December 1, sharply below the 79 day's supply on July 1. Thus, the manufacturers' costly programs to clear out inventories of 1982 models have been successful. The reduced inventory levels will allow any sales increases to be rapidly converted into production increases. This stock clearance, coupled with recent interest rate declines, will improve dealer financial health by cutting carrying costs.

The domestic car dealer population continued to shrink in the third quarter, with a net reduction of 303 outlets. During the 1982 model year (October 1981 through September 1982), the domestic car dealer body declined by 1,267. This was a much larger loss than the 1981 model year decline of 758 outlets. Since there is a long-term secular trend toward fewer car dealers, closings will not stop when car sales increase.

FINANCIAL PERFORMANCE

During the third quarter, the four major domestic auto manufacturers lost \$218 million, compared with a \$960 million loss in the third quarter of 1981. Industry profits traditionally are poor in the third quarter. Production is low because plants must be shut down for conversion to new models. The conversion costs also reduce third quarter profits. The smaller loss this year than in 1981 indicates substantial industry progress in cutting costs.

Through the third quarter of 1982, the industry had a combined net income of \$511 million, up from a \$980 million loss in the first three quarters of 1981. The industry still is losing money, however, on its regular operations. Exhibit 3 outlines the sources of profits. More than 100 percent of the industry's pre-tax profits came from nontraditional sources of income, such as currency translation gains, shares in subsidiaries' income, and asset sales. We estimate that traditional operations lost \$0.7 billion through the third quarter of 1982, while the other profit sources added over \$1.2 billion to pre-tax income. This is a further indication that cost cutting measures taken thus far will not solve the industry's financial problems unless sales strengthen.

Liquidity did not improve in the third quarter; net cash flow declined by an additional \$1.1 billion. The net cash deficit through the third quarter totalled \$3.5 billion.

Exhibit 4 provides our estimate of the industry's net cash flow from operations this year. Our expectation is for a cash deficit of \$4.7 billion. This is a slight improvement over the \$5.1 billion deficit forecast in our last report. The main reason for this change is lower than expected capital spending by GM and Chrysler. We now look for industry capital spending to decline \$2.8 billion (22 percent) from last year's level.

We have reduced our forecast for the industry's 1982 earnings from our previous estimate of \$0.8 billion to \$0.7 billion. This revision is due to a number of factors: Japanese erosion of U.S. sales in the small truck market, the high marketing costs of the industry's incentive programs to clear out 1982 model inventories, increased depreciation and amortization expense, and the impact of the Chrysler strike. This year's earnings still will be a decided improvement over the industry's 1981 loss of \$1.3 billion.

Earnings for the industry will continue to improve in 1983. Our next report will provide preliminary estimates for the upcoming year.

OTHER AUTO NEWS

"Lame Duck" Session

The "lame duck" session of Congress began on November 29. The main pending auto issue is domestic content legislation, which passed the House by a narrow margin on December 15. The bill passed with an amendment which substantially

weakened the bill. Senate action before adjournment is unlikely. The Administration is working to maintain strong opposition to the bill. In order to delay Senate consideration, Senator Bob Packwood, Chairman of the Senate Committee on Commerce, scheduled hearings on domestic content on December 16-17. Secretary Baldrige and other Administration officials have testified on the bill. Other issues of general interest to the auto industry that may be handled during the session are jobs programs, administrative regulatory reform, and the gasoline tax.

Japanese Production in the U.S.

Honda began production of four-door Accords in its new Marysville, Ohio assembly plant on November 1. The plant has an assembly capacity of 150,000 units per year; however, it will not produce at this rate until late 1984. To ensure quality, the plant scheduled production of only 600 cars in November, escalating to 1,200 units in December. Honda claims a U.S. content of about 50 percent.

GM has agreed to sell 200,000 Isuzu subcompacts in the U.S. market beginning in 1984, and to import 100,000 minicars from Suzuki in the mid-1980's. According to the trade press, the company also has agreed to produce a small Isuzu car in a Midwest plant at a rate of 300,000 per year. GM has denied the Isuzu production report, saying that management still is negotiating with Toyota to build a Japanese car in this country. In either case, the rumor essentially confirms our view that GM will rely on Japanese cars to replace the domestically produced Chevette. With powertrain components coming from Japan, GM will be able to market high quality subcompact cars at a lower cost than Ford or Chrysler, unless those companies negotiate similar arrangements with Japanese producers. This is likely to result in reduced employment in the domestic industry, as domestic production of small cars shifts more toward Japanese vehicles. However, the employment prospects would be even worse if the U.S. companies were to abandon the entire small car market to Japanese imports.

Plant Closings

Further evidence of weak U.S. competitiveness in the small car market was provided by Ford's announcement that the company will close a California subcompact car plant by June 1983. The San Jose Plant assembles Ford Escorts and EXPs, as well as the equivalent Mercury models and some light trucks. Shutdown of the plant will eliminate 2,400 jobs.

Ford's stated rationale for closing the plant is that, with imports having captured half the California new car market, sales of the San Jose cars were sufficient to support only 40 percent of the plant's capacity. The large influx of imports into the California market and the high cost of shipping cars over the Rockies have resulted in four assembly plant closings in the state since 1980. Ford and GM each have announced the shutdown of two assembly plants in California. After June 1983, only one assembly plant will remain in the state, the GM Van Nuys plant building Camaros and Firebirds. This plant also is threatened; GM recently eliminated one shift at the plant, idling 2,250 workers.

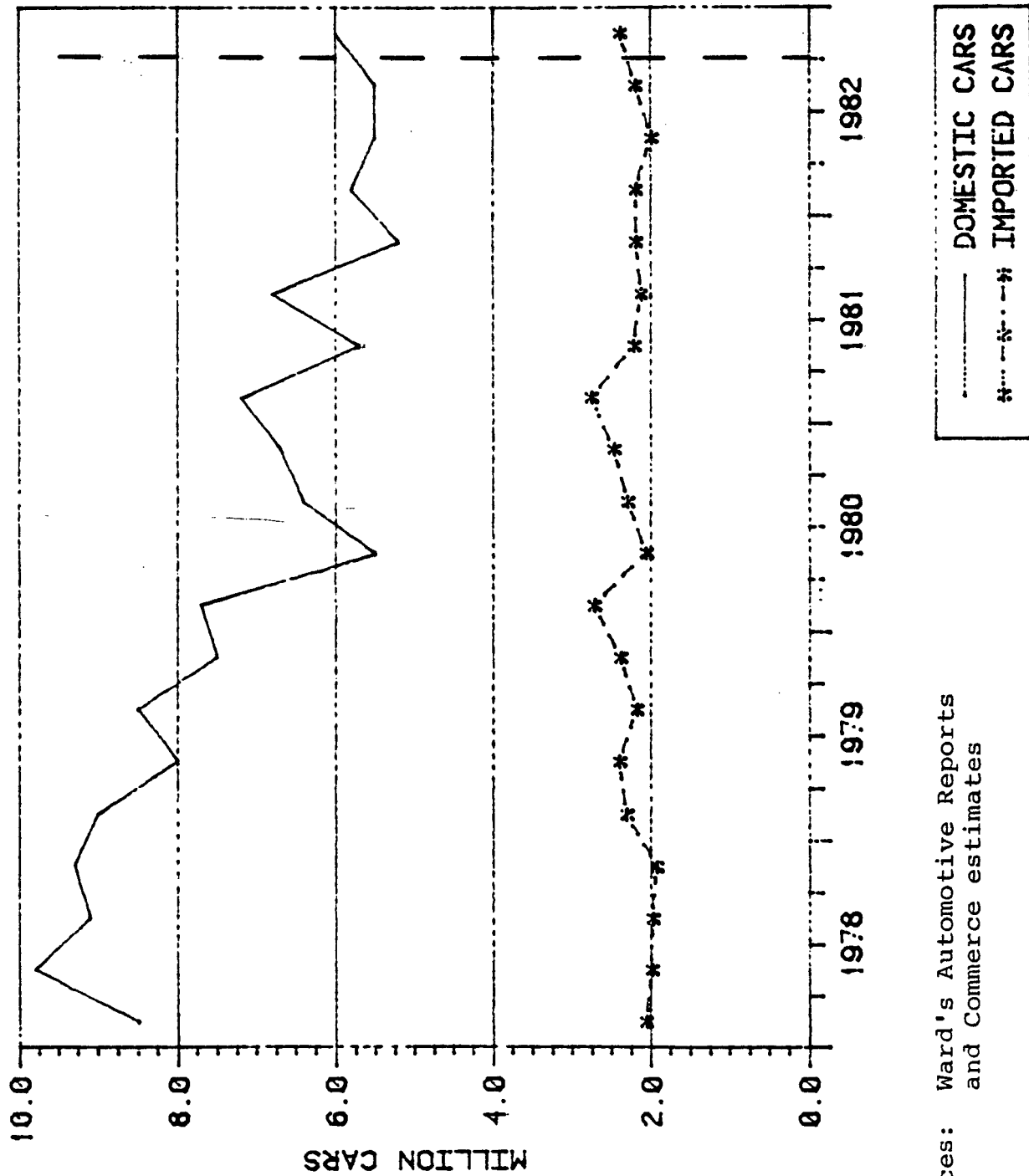
In addition to demonstrating the problem U.S. companies are having competing in the small car market, the San Jose closing also illustrates the possible industry contraction into the Midwest. As manufacturers try to reduce excess capacity and cut shipment and inventory costs, the plants farthest from the Midwest are the most vulnerable. Reducing inventory costs by scheduling frequent shipments from suppliers is easier to accomplish if a manufacturer is close to its suppliers. Since late 1979, the auto companies have closed enough plants to eliminate almost 1.9 million units of capacity. Eight of the 10 plants closed were located far from the Midwest. This trend is quite likely to continue in the near future. Even if capacity utilization improves from less than 55 percent in 1982 to 70 percent in 1983, the industry still will be faced with more capacity than it needs. The end result may be that the industry becomes concentrated in the Midwest states, as it was earlier.

New UAW Leadership

The UAW's international executive board has nominated Owen Bieber, head of the Union's GM department, to succeed Douglas Fraser, who retires next May. Bieber, 52, is expected to be confirmed at the union's May convention. No change is anticipated in the Union's philosophy or relations with industry management.

Exhibit 1

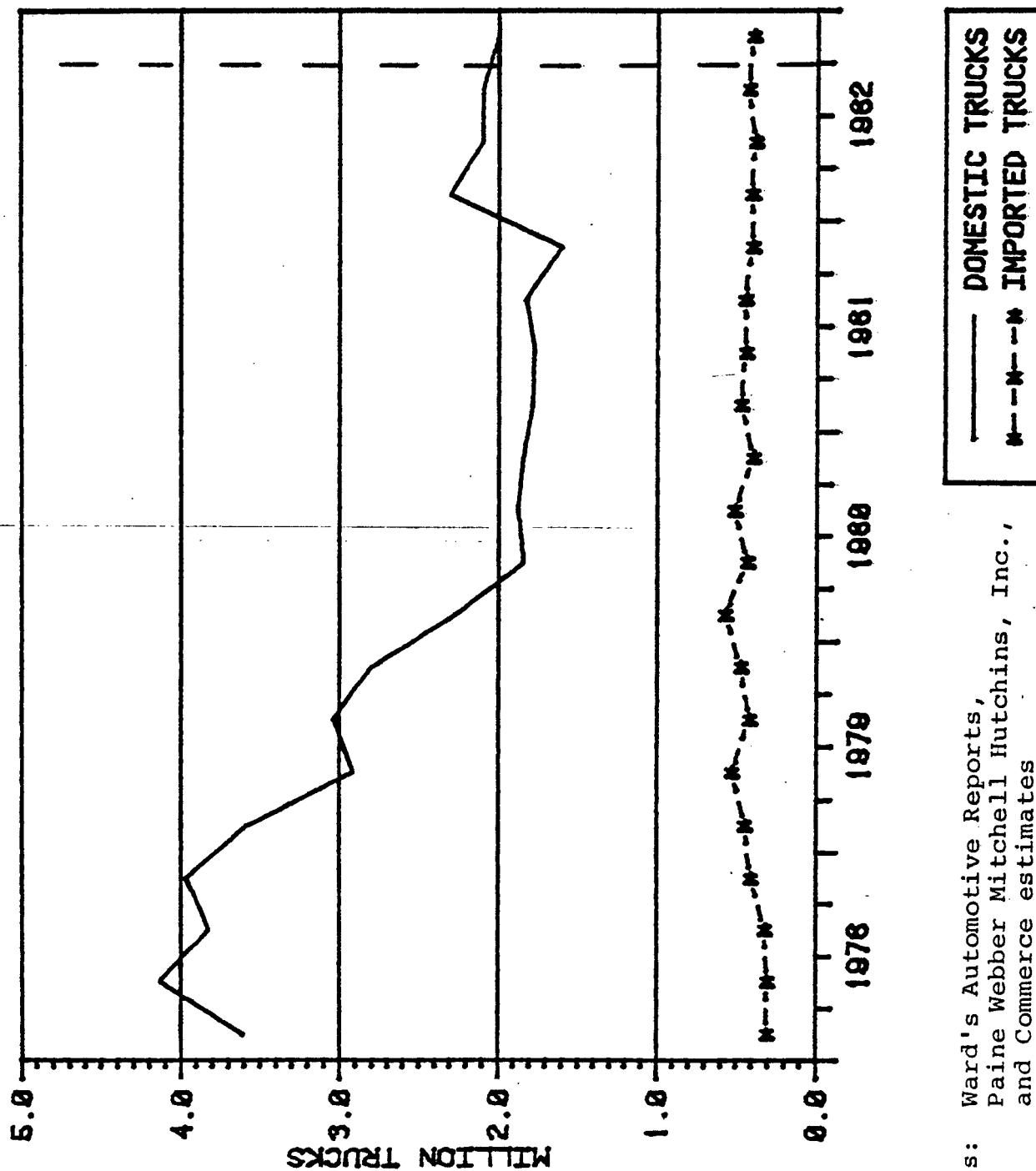
SALES OF DOMESTIC AND IMPORTED CARS
 QUARTERLY: HISTORY 1978 I -- 1982 III, FORECAST 1982 IV
 SEASONALLY ADJUSTED ANNUAL RATES



Sources: Ward's Automotive Reports
 and Commerce estimates

Exhibit 2

SALES OF DOMESTIC AND IMPORTED TRUCKS
QUARTERLY: HISTORY 1978 I - 1982 III, FORECAST 1982 IV
SEASONALLY ADJUSTED ANNUAL RATES



Sources: Ward's Automotive Reports,
Paine Webber Mitchell Hutchins, Inc.,
and Commerce estimates

PROFIT SOURCES FOR NINE-MONTH 1982 EARNINGS
(millions of dollars)

	<u>GM</u>	<u>FORD</u>	<u>CHRYSLER</u>	<u>AMC</u>	<u>TOTAL</u>
"Operating" Income ¹	\$ (144)	\$ (408)	\$ 10	\$ (151)	\$ (693)
Gains from Currency Translation	313	20	NA	NA	333
Equity in Net Income of Unconsolidated Subsidiaries	477	211	(1)	NA	687
Asset Sales	<u> </u>	56	172	NA	228
Other Income ²	<u> </u>	<u>(4)</u>	<u>10</u>	<u>NA</u>	<u>6</u>
Pre-Tax Earnings	\$ 646	\$ (125)	\$ 191	\$ (151)	\$ 561
Income Taxes (Credits)	<u>(172)</u>	<u>297</u>	<u>(75)</u>	<u> </u>	<u>50</u>
Net Income	\$ 818	\$ (422)	\$ (266)	\$ (151)	\$ 511

1. "Operating Income is sales revenue minus: cost of goods sold; selling, general, and administrative expenses; depreciation; amortization; and net interest expense. Income from currency translation, asset sales, and other specifically identified sources is broken out from operating income.

2. Includes tax credit sales and other miscellaneous sources of income.

NA = Not Available

Source: Commerce estimates based on quarterly reports.

GM, FORD, CHRYSLER, AND AMC
MAJOR SOURCES AND USES OF FUNDS FROM OPERATIONS*
 (billions of dollars)

	<u>1981 Quarters</u>		<u>1982 Quarters</u>	
	<u>I - III</u>	<u>TOTAL</u>	<u>I - III</u>	<u>TOTAL (e)</u>
<u>Sources of Funds</u>				
Net Income (Loss)	\$ (1.0)	\$ (1.3)	\$ 0.5	\$ 0.7
Depreciation and Amortization	<u>5.3</u>	<u>7.1</u>	<u>5.5</u>	<u>7.3</u>
Total from Operations	<u>\$ 4.3</u>	<u>\$ 5.7</u>	<u>\$ 6.0</u>	<u>\$ 8.0</u>
<u>Uses of Funds</u>				
Dividends	\$ 0.7	\$ 0.9	\$ 0.6	\$ 0.7
Plant and Tooling	9.3	12.5	7.1	9.7
Investment in Unconsolidated Subsidiaries	0.5	0.5	0.5	0.7
Retirement of Long-Term Debt	<u>0.5</u>	<u>0.6</u>	<u>1.4</u>	<u>1.5</u>
Total Uses	<u>\$10.9</u>	<u>\$14.6</u>	<u>\$ 9.6</u>	<u>\$12.7</u>
<u>Surplus (Deficit) from Operations</u>	\$ (6.6)	\$ (8.8)	\$ (3.5)	\$ (4.7)

e = estimate

* Long-term debt retirements for 1981 do not include Chrysler's conversion of long-term debt to preferred stock. 1982 Total is our current estimate. Numbers may not add due to rounding.

Sources: Annual and quarterly reports and Commerce estimates.